

LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER IN SHREVEPORT
LOUISIANA STATE UNIVERSITY SYSTEM
A COMPONENT UNIT OF THE
STATE OF LOUISIANA



FINANCIAL STATEMENT AUDIT
ISSUED NOVEMBER 14, 2007

**LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
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STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

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October 24, 2007

Independent Auditor's Report

**LOUISIANA STATE UNIVERSITY HEALTH
SCIENCES CENTER IN SHREVEPORT
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Shreveport, Louisiana**

We have audited the accompanying basic financial statements of the Louisiana State University Health Sciences Center in Shreveport, a campus within the Louisiana State University System, a component unit of the State of Louisiana, as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Louisiana State University Health Sciences Center in Shreveport's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Louisiana State University Health Science Center in Shreveport's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1-B, the accompanying financial statements of Louisiana State University Health Sciences Center in Shreveport are intended to present the financial position and the changes in financial position and cash flows, where applicable, of only that portion of the business-type activities of the Louisiana State University System that is attributable to the transactions of Louisiana State University Health Sciences Center in Shreveport. They do not purport to, and do not, present fairly the financial position of the Louisiana State University System as of June 30, 2007, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statements referred to previously present fairly, in all material respects, the financial position of the Louisiana State University Health Sciences Center in Shreveport as of June 30, 2007, and the respective changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

During August and September of 2005, the State of Louisiana suffered considerable damage from two major hurricanes, Katrina and Rita, resulting in the President of the United States declaring Louisiana a major disaster area. Because of the severity of these two separate events and the resulting losses sustained, it is unknown exactly what economic impact recovery will have on state and local governmental operations in Louisiana. While Louisiana State University Health Sciences Center in Shreveport did not directly suffer any major effects of these two hurricanes, the Louisiana State University System lost significant assets and operational functionality. However, the long-term effects of these events directly on the Louisiana State University Health Sciences Center in Shreveport cannot be determined at this time.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2007, on our consideration of the Louisiana State University Health Sciences Center in Shreveport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 5 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

KWB:WJR:THC:sr

[LSUHSCS07]

INTRODUCTION

The Management's Discussion and Analysis of Louisiana State University Health Sciences Center in Shreveport's (center) financial performance presents a narrative overview and analysis of the center's financial activities for the year ended June 30, 2007. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. Please read this document in conjunction with the center's financial statements, which follows this section.

FINANCIAL HIGHLIGHTS

The center's net assets overall changed from \$251.8 million to \$299 million or 18.7% from June 30, 2006, to June 30, 2007. The overall reasons for this change include the following:

- Increase in accounts receivable as a result of Supplemental Appropriation Acts 203 and 205 of the 2007 Regular Session
- Increase in patient collections in the hospital
- Endowment gift in FY 2007

The center's operating revenues changed from \$490.7 million to \$516.4 million or 5.2% from June 30, 2006, to June 30, 2007. Operating expenses, however, changed by 6.9% to \$579.8 million for the year ended June 30, 2007. An increase in personnel cost and capital equipment purchases are the primary reasons for the increase in operating expenses.

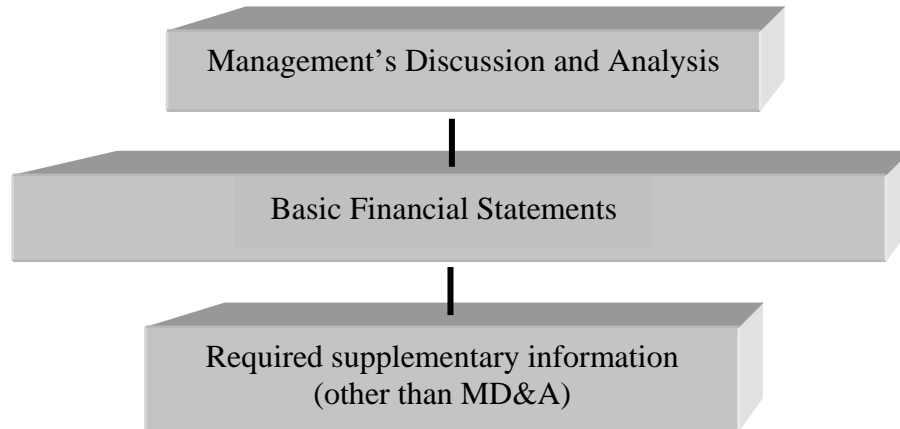
Nonoperating revenues (expenses) fluctuate depending upon levels of state operating and capital appropriations. The change to \$111.2 million in 2007 from \$78.6 million in 2006 is attributed to the following:

Expressed in millions:

Increase in state appropriation	\$16.8
Increase in investment income	5.2
Endowment gift	<u>10.6</u>
Total	<u><u>\$32.6</u></u>

OVERVIEW OF THE FINANCIAL STATEMENTS

The following graphic illustrates the minimum requirements for Special Purpose Governments Engaged in Business-Type Activities established by Governmental Accounting Standards Board Statement 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*.



These financial statements consist of three sections - Management's Discussion and Analysis (this section), the basic financial statements, and the notes to the financial statements.

Basic Financial Statements

The basic financial statements present information for the center as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

The Statement of Net Assets (pages 11-12) presents the current and long-term portions of assets and liabilities separately. The difference between total assets and total liabilities is net assets and may provide a useful indicator of whether the financial position of the center is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets (pages 13-14) presents information showing how the center's assets changed as a result of current year operations. Regardless of when cash is affected, all changes in net assets are reported when the underlying transactions occur. As a result, transactions are included that will not affect cash until future fiscal periods.

The Statement of Cash Flows (pages 15-16) presents information showing how the center's cash changed as a result of current year operations. The Statement of Cash Flows is prepared using the direct method and includes the reconciliation of operating income (loss) to net cash provided (used) by operating activities (indirect method) as required by GASB 34.

The financial statements provide both long-term and short-term information about the center's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

The center's financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America as applied to government units. Under this basis of accounting, revenues are recognized in the period in which they are earned,

MANAGEMENT'S DISCUSSION AND ANALYSIS

expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statement of Revenues, Expenses, and Changes in Net Assets. All assets and liabilities associated with the operation of the center are included in the Statement of Net Assets.

FINANCIAL ANALYSIS

Statement of Net Assets As of June 30, 2007, and June 30, 2006

	Total	
	2007	2006
Current and other assets	\$234,378,780	\$184,402,231
Capital assets	126,332,053	128,294,617
Total assets	360,710,833	312,696,848
Total liabilities	61,759,062	60,916,623
Net assets:		
Invested in capital assets, net of debt	115,096,051	114,031,350
Restricted	71,103,319	58,425,527
Unrestricted	112,752,401	79,323,348
Total net assets	\$298,951,771	\$251,780,225

This schedule is prepared from the center's Statement of Net Assets which is presented on an accrual basis of accounting. Significant Statement of Net Asset changes in 2007 include a 42.1% increase in net assets unrestricted because of the following:

Expressed in millions:	
Increase in patient care	\$16.8
Increase in physician upper payment limit amount	5.2
Increase in investment income	4.5
Total	\$26.5

Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation, and reduced by the amount of outstanding indebtedness attributable to the acquisition, construction, or improvement of those assets. Restricted net assets represent those assets that are not available for spending as a result of legislative requirements, donor agreements, or grant requirements. Conversely, unrestricted net assets are those that do not have any limitations on what these amounts may be spent.

**Statement of Revenues, Expenses,
and Changes in Net Assets
For the Years Ended June 30, 2007, and June 30, 2006**

	2007	2006
Operating revenues:		
Student tuition and fees, net	\$5,848,171	\$5,329,393
Grants and contracts	42,622,784	40,616,070
Auxiliary	9,371,343	9,034,243
Other	458,602,120	435,700,064
Total operating revenues	516,444,418	490,679,770
Operating expenses - education and general:		
Instruction	53,099,127	50,827,278
Research	36,437,733	33,994,463
Public service	67,755,998	61,148,012
Academic support	5,011,701	4,667,166
Student services	1,094,630	1,026,323
Institutional support	20,636,520	22,535,225
Operations and maintenance of plant	10,483,421	11,599,196
Depreciation	23,487,584	22,207,867
Scholarships and fellowships	650,451	832,178
Other operating expenses	361,130,294	333,299,185
Total operating expenses	579,787,459	542,136,893
Operating loss	(63,343,041)	(51,457,123)
Nonoperating revenues (expenses):		
State appropriations	78,983,961	62,142,375
Gifts	137,575	36,390
Other nonoperating revenues	9,604,743	4,372,166
Nonoperating revenues	88,726,279	66,550,931
Income before other revenues and expenses	25,383,238	15,093,808
Capital appropriations	10,407,407	11,222,037
Capital grants and gifts	824,149	109,186
Additions to permanent endowments	10,620,000	
Other additions, net	(63,248)	(394,720)
Increase in Net Assets	47,171,546	26,030,311
Net assets at beginning of year	251,780,225	225,749,914
Net assets at end of year	\$298,951,771	\$251,780,225

Nonoperating and other revenues increased by 42% to \$110,577,835, primarily attributable to return on investments and an endowment gift.

State appropriations changed from \$62,142,375 to \$78,983,961 because of additional funds for medical school operations, coverage for nonallowable cost and prisoner care cost in the hospitals.

The center's total revenues increased by \$58.5 million or 10.28%.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2007, the center had invested approximately \$126.3 million in capital assets, net of accumulated depreciation. This amount represents a net decrease (including additions and disposals, net of depreciation) of approximately \$2 million or 1.53% over the previous fiscal year. More detailed information about the center's capital assets is presented in note 6 to the financial statements.

Capital Assets at Year-end (Net of Depreciation)

	2007	2006
Land	\$3,990,675	\$4,085,809
Buildings	88,117,896	90,810,242
Equipment	33,060,165	32,337,495
Library materials	1,163,317	1,061,068
Total	<u>\$126,332,053</u>	<u>\$128,294,614</u>

Debt

The center did not have bonds outstanding at fiscal year-end 2007 or 2006.

See note 13 for details relating to changes in and the composition of long-term liabilities and capital leases.

CONTACTING THE CENTER'S MANAGEMENT

This financial report is designed to provide our residents, taxpayers, customers, and investors and creditors with a general overview of the center's finances and to demonstrate the center's accountability for the funds it receives. If you have questions about this report or need additional financial information, contact Janie Binderim, Comptroller, at 318-675-5230.

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**LSU HEALTH SCIENCES CENTER IN SHREVEPORT
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA****Statement of Net Assets, June 30, 2007****ASSETS**

Current assets:

Cash and cash equivalents (note 2)	\$110,360,347
Investments (note 3)	5,722,555
Receivables, net (note 4)	34,879,674
Due from other campuses	1,205,044
Due from state treasury (note 15)	14,303,349
Inventories	9,762,663
Deferred charges and prepaid expenses	199,521
Notes receivable, net (note 5)	305,164
Total current assets	<u>176,738,317</u>

Noncurrent assets:

Restricted assets:

Cash and cash equivalents (note 2)	9,372,116
Investments (note 3)	46,666,232
Notes receivable, net (note 5)	1,602,115
Capital assets, net (note 6)	126,332,053
Total noncurrent assets	<u>183,972,516</u>
Total assets	<u>360,710,833</u>

LIABILITIES

Current liabilities:

Accounts payable and accrued liabilities (note 7)	24,176,633
Due to other campuses	276,969
Due to state treasury (note 15)	36,150
Deferred revenues	1,697,630
Compensated absences payable (notes 11 and 13)	1,344,266
Capital lease obligations (note 13)	2,456,629
Amounts held in custody for others	38,874
Notes payable (note 14)	566,476
Total current liabilities	<u>30,593,627</u>

(Continued)

The accompanying notes are an integral part of this statement.

**LSU HEALTH SCIENCES CENTER IN SHREVEPORT
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Statement of Net Assets, June 30, 2007**

LIABILITIES (CONT.)

Noncurrent liabilities:

Compensated absences payable (notes 11 and 13)	\$22,952,538
Capital lease obligations (note 13)	7,977,463
Notes payable (note 14)	235,434
Total noncurrent liabilities	<u>31,165,435</u>
Total liabilities	<u>61,759,062</u>

NET ASSETS

Invested in capital assets, net of related debt	115,096,051
Restricted for:	
Nonexpendable (note 16)	49,648,050
Expendable (note 16)	21,455,269
Unrestricted	<u>112,752,401</u>
Total net assets	<u><u>\$298,951,771</u></u>

(Concluded)

The accompanying notes are an integral part of this statement.

**LSU HEALTH SCIENCES CENTER IN SHREVEPORT
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA****Statement of Revenues, Expenses,
and Changes in Net Assets
For the Fiscal Year Ended June 30, 2007****OPERATING REVENUES**

Student tuition and fees (net of scholarship allowances of \$132,195)	\$5,848,171
Federal grants and contracts	16,013,725
State and local grants and contracts	14,681,301
Nongovernmental grants and contracts	11,927,758
Sales and services of educational departments	98,607,520
Hospital income	359,575,145
Auxiliary enterprise revenues	9,371,343
Other operating revenues	419,455
Total operating revenues	<u>516,444,418</u>

OPERATING EXPENSES

Education and general:	
Instruction	56,628,595
Research	36,608,033
Public service	68,611,624
Academic support	5,660,615
Student services	1,095,935
Institutional support	20,750,792
Operations and maintenance of plant	11,587,477
Scholarships and fellowships	650,451
Auxiliary enterprises	8,529,964
Hospital	369,663,973
Total operating expenses	<u>579,787,459</u>

OPERATING LOSS (63,343,041)**NONOPERATING REVENUES (Expenses)**

State appropriations	78,983,961
Gifts	137,575
Net investment income	10,269,696
Interest expense	(664,953)
Net nonoperating revenues	<u>88,726,279</u>

(Continued)

The accompanying notes are an integral part of this statement.

**LSU HEALTH SCIENCES CENTER IN SHREVEPORT
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Statement of Revenues, Expenses,
and Changes in Net Assets, 2007**

INCOME BEFORE OTHER REVENUES AND EXPENSES	\$25,383,238
Capital appropriations	10,407,407
Capital grants and gifts	824,149
Additions to permanent endowments	10,620,000
Other additions, net	<u>(63,248)</u>
INCREASE IN NET ASSETS	47,171,546
NET ASSETS - BEGINNING OF YEAR	<u>251,780,225</u>
NET ASSETS - END OF YEAR	<u><u>\$298,951,771</u></u>

(Concluded)

The accompanying notes are an integral part of this statement.

**LSU HEALTH SCIENCES CENTER IN SHREVEPORT
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA**

**Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007**

CASH FLOWS FROM OPERATING ACTIVITIES:

Tuition and fees	\$6,063,569
Grants and contracts	41,741,373
Sales and services of educational departments	98,470,633
Hospital income	350,451,402
Auxiliary enterprise receipts	9,371,781
Payments for employee compensation	(309,367,377)
Payments for benefits	(64,260,265)
Payments for utilities	(7,301,233)
Payments for supplies and services	(174,103,251)
Payments for scholarships and fellowships	(650,451)
Loans to students	(294,767)
Collections of loans to students	305,165
Other receipts	418,973
Net cash used by operating activities	<u>(49,154,448)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

State appropriations	65,788,285
Gifts and grants for other than capital purposes	137,575
Private gifts for endowment purposes	10,620,000
TOPS receipts	60,644
TOPS disbursements	(60,644)
Net cash provided by noncapital financing sources	<u>76,545,860</u>

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:

Capital appropriations received	10,407,408
Capital grants and gifts received	824,149
Purchases of capital assets	(21,511,494)
Principal paid on capital debt and leases	(3,281,339)
Interest paid on capital debt and leases	(664,953)
Other sources	177,296
Net cash used by capital financing activities	<u>(14,048,933)</u>

(Continued)

The accompanying notes are an integral part of this statement.

**LSU HEALTH SCIENCES CENTER IN SHREVEPORT
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Statement of Cash Flows, 2007**

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from sales and maturities of investments	\$17,078,597
Interest received on investments	10,149,489
Purchase of investments	(22,497,021)
Net cash provided by investing activities	<u>4,731,065</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS 18,073,544

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 101,658,919

CASH AND CASH EQUIVALENTS AT END OF YEAR \$119,732,463

**RECONCILIATION OF OPERATING LOSS TO
NET CASH USED BY OPERATING ACTIVITIES:**

Operating loss	(63,343,041)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	23,487,584
Changes in assets and liabilities:	
(Increase) in accounts receivable, net	(13,571,385)
(Increase) in inventories	(1,110,821)
Decrease in deferred charges and prepaid expenses	136,786
Decrease in notes receivable	10,398
Increase in accounts payable and accrued liabilities	4,893,944
Increase in deferred revenue	28,298
(Decrease) in amounts held in custody for others	(482)
Increase in compensated absences	356,882
(Decrease) in other liabilities	<u>(42,611)</u>
Net cash used by operating activities	<u><u>(\$49,154,448)</u></u>

(Concluded)

The accompanying notes are an integral part of this statement.

INTRODUCTION

Louisiana State University Health Sciences Center in Shreveport (center), a hospital and institution of higher education within the Louisiana State University (LSU) System, a component unit of the State of Louisiana, is a publicly supported institution of higher education under the management and supervision of the LSU Board of Supervisors; however, certain items such as the annual budget and changes to the degree programs and departments of instruction require the approval of the Board of Regents for Higher Education. As a state university, operations of the center and its instructional programs are funded through annual lapsing appropriations made by the Louisiana Legislature.

The center, located in Shreveport, Louisiana, serves as a university teaching hospital and offers degrees in medicine, allied health programs, and graduate studies. Student enrollment at the center for the 2006 fall semester totaled 768.

In addition, Act 906 of the 2003 Regular Session of the Louisiana Legislature assigned responsibility of all programs and facilities of E.A. Conway Medical Center (EAC) to the center. EAC has a 247-bed capacity and serves as a teaching facility using the same teachers and faculty that are employed by the center. During September 2006, the center had approximately 730 full-time and part-time faculty members, including associates and affiliated faculty.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The Governmental Accounting Standards Board (GASB) promulgates accounting principles generally accepted in the United States of America and reporting standards for state and local governments. These principles are found in the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the GASB. The accompanying financial statements have been prepared in accordance with such principles.

B. REPORTING ENTITY

GASB Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. Louisiana State University Medical Center in Shreveport is part of the LSU System, which is considered a component unit of the State of Louisiana because the state exercises oversight responsibility and has accountability for fiscal matters as follows: (1) the majority of the members of the governing boards are appointed by the governor; (2) the state has control and exercises authority over budget matters; (3) the state issues bonds to finance certain construction; and (4) the center primarily serves state residents. The accompanying financial statements present information only as to the transactions of the programs of the center, to include EAC, as authorized by Louisiana statutes and administrative regulations.

Annually, the State of Louisiana issues a comprehensive financial report, which includes the activity contained in the accompanying financial statements within the LSU System amounts. The Louisiana Legislative Auditor audits the basic financial statements of the LSU System and the state.

C. BASIS OF ACCOUNTING

For financial reporting purposes, the center is considered a special-purpose government engaged only in business-type activities. All activities of the center are accounted for in a single proprietary (enterprise) fund. Accordingly, the center's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-center transactions have been eliminated.

The center has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The center has elected to not apply FASB pronouncements issued after the applicable date.

D. BUDGET PRACTICES

The appropriations made for the General Fund of the center's appropriation is an annual lapsing appropriation established by legislative action and by Title 39 of the Louisiana Revised Statutes. The statute requires that the budget be approved by the Board of Regents for Higher Education and certain legislative and executive agencies of state government. Budget revisions are granted by the Joint Legislative Committee on the Budget. In compliance with these legal restrictions, budgets are adopted on the accrual basis of accounting, except that (1) depreciation is not recognized; (2) leave costs are treated as budgeted expenditures to the extent that they are expected to be paid; (3) summer school tuition and fees and summer school faculty salaries and related benefits for June are not prorated, but are recognized in the succeeding year; and (4) the long-term portion of capital leases is not recognized.

The original approved budgets and subsequent amendments approved for the center for fiscal year 2007 are as follows:

Original approved budget	\$456,067,700
Amendments:	
State General Fund (direct)	13,367,100
State General Fund (self-generated)	254,957
State General Fund (interagency transfers)	(4,277,411)
Federal funds	<u>1,479,783</u>
Final budget	<u><u>\$466,892,129</u></u>

The other funds of the center, although subject to internal budgeting, are not required to submit budgets for approval through the legislative budget process.

E. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash includes cash on hand (petty cash), demand deposits, and interest-bearing demand deposits. Cash equivalents include amounts in certificates of deposit and money market funds. Under state law, the center may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. Furthermore, the center may invest in certificates of deposit of state banks organized under Louisiana law and national banks having their principal offices in Louisiana. Cash equivalents reported on the Statement of Net Assets include all negotiable certificates of deposit regardless of maturity.

In accordance with Louisiana Revised Statute (R.S.) 49:327, the center is authorized to invest funds in direct U.S. Treasury obligations, U.S. government agency obligations, mutual funds, direct security repurchase agreements, and time certificates of deposit. In addition, funds derived from gifts and grants, endowments, and reserve funds established in accordance with bond issues may be invested as stipulated by the conditions of the gift instrument or bond indenture. Investments are maintained in investment accounts in the Louisiana State University Health Sciences Center (LSUHSC) Foundation as authorized by policies and procedures established by the Board of Regents and are reported at fair value in accordance with GASB Statement No. 31. Changes in the carrying value of investments, resulting in unrealized gains or losses, are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Assets. For purposes of the Statement of Cash Flows, the center considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

F. INVENTORIES

Inventories are valued at the lower of cost or market using the first-in, first-out and weighted-average valuation methods. The center uses periodic and perpetual inventory systems and accounts for its inventories using the consumption method.

G. NONCURRENT RESTRICTED ASSETS

Cash and investments that are externally or legally restricted by endowments or used to purchase or construct capital or other noncurrent assets are classified as noncurrent assets in the Statement of Net Assets.

H. CAPITAL ASSETS

Hospitals and medical units within the center are subject to federal cost reporting requirements and use capitalization and depreciation policies of the Centers for Medicare and Medicaid Services to ensure compliance with federal regulations. These

capitalization policies include capitalizing all assets above \$5,000, depreciable lives greater than 40 years on some assets, and recognizing one-half year of depreciation in the year of acquisition and in the final year of useful life.

Capital assets are reported at cost at the date of acquisition or their estimated fair value at the date of donation. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred. Depreciation is computed using the straight-line method over the estimated useful life of the assets, generally 40 years for buildings and infrastructure, 20 years for depreciable land improvements, and three to 10 years for most movable property. Depreciation expense is charged directly to the various functional categories of operating expenses on the Statement of Revenues, Expenses, and Changes in Net Assets. The center uses the group or composite method for library book depreciation if the books are considered to have a useful life of greater than one year. Library collections regardless of age, with a total acquisition value of \$5,000,000 or more will be capitalized and depreciated.

I. DEFERRED REVENUES

Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but are related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

J. COMPENSATED ABSENCES

Employees accrue and accumulate annual and sick leave in accordance with state law and administrative regulations. The leave is accumulated without limitation. Employees who are considered having non-exempt status according to the guidelines contained in the Fair Labor Standards Act may be paid for compensatory leave earned.

Upon separation of employment, both classified and unclassified personnel or their heirs are compensated for accumulated annual leave not to exceed 300 hours. In addition, academic and unclassified personnel or their heirs are compensated for accumulated sick leave not to exceed 25 days upon retirement or death. Act 343 of 1993 allows members of the Louisiana State Employees' Retirement System, upon application for retirement, the option of receiving an actuarially determined lump sum payment for annual and sick leave, which would otherwise have been used to compute years of service for retirement. Unused annual leave in excess of 300 hours plus unused sick leave are used to compute retirement benefits or may be paid at actuarially computed amounts.

Upon termination or transfer, an employee will be paid for any time and one-half hour compensatory leave earned and may or may not be paid for any straight hour-for-hour compensatory leave earned. Compensation paid will be based on the employee's hourly rate of pay at termination or transfer.

K. NONCURRENT LIABILITIES

Noncurrent liabilities include (1) principal amounts of notes payable; (2) capital lease obligations with contractual maturities greater than one year; and (3) estimated amounts for accrued compensated absences that will not be paid within the next fiscal year.

**L. POSTEMPLOYMENT HEALTH CARE
AND LIFE INSURANCE BENEFITS**

The center provides certain continuing health care and life insurance benefits for its retired employees. The center recognizes the cost of providing these benefits as an expense when paid during the year.

M. NET ASSETS

The center's net assets are classified as follows:

- (a) Invested in capital assets, net of related debt consists of the center's total investment in capital assets, net of accumulated depreciation, and reduced by outstanding debt obligations related to the acquisition, construction, or improvement of those assets.
- (b) Restricted net assets - nonexpendable consist of endowments and similar type funds that donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.
- (c) Restricted net assets - expendable consist of resources that the center is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.
- (d) Unrestricted net assets consist of resources derived from student tuition and fees, state appropriations, hospital income, and sales and services of educational departments and certain auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the center and may be used at the discretion of the governing board to meet current expenses and for any purpose.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the center's policy is to first apply the expense toward unrestricted resources, then toward restricted resources.

N. CLASSIFICATION OF REVENUES

The center has classified its revenues as either operating or nonoperating according to the following criteria:

- (a) Operating revenue includes activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises; (3) hospital income; and (4) most federal, state, and local grants and contracts.
- (b) Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as gifts and contributions, state appropriations, and investment income.

O. SCHOLARSHIP DISCOUNTS AND ALLOWANCES

Student tuition and fee revenues and certain other revenues from students are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the center and the amount that is paid by students and/or third parties making payments on the students' behalf.

P. ELIMINATING INTERFUND ACTIVITY

All activities among departments, campuses and auxiliary units of the center are eliminated for purposes of preparing the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets.

2. CASH AND CASH EQUIVALENTS

At June 30, 2007, the center has cash and cash equivalents (book balances) of \$119,732,463 as follows:

Demand deposits	\$119,586,352
Certificates of deposit	100,000
Money market	7,744
Petty cash	38,367
	<hr/>
Total	<u><u>\$119,732,463</u></u>

Custodial credit risk is the risk that in the event of a bank failure, the center's deposits may not be recovered. Under state law, the center's deposits (or resulting bank balances) must be secured by federal deposit insurance or similar federal security or the pledge of securities owned by the fiscal agent bank. The fair market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities

NOTES TO THE FINANCIAL STATEMENTS

are held in the name of the center or the pledging bank by a holding or custodial bank that is mutually acceptable to both parties.

As of June 30, 2007, the center's bank balance of \$129,989,596 was insured and collateralized.

3. INVESTMENTS

At June 30, 2007, the center has investments totaling \$52,388,787. The center maintains investment accounts as authorized by LSU System Permanent Memorandum-9. The LSU System investment policy follows state law (R.S. 49:327), which authorizes the center to invest funds in direct U.S. Treasury obligations, U.S. government agency obligations, direct security repurchase agreements, reverse direct repurchase agreements, investment grade commercial paper, investment grade corporate notes and bonds, and money market funds. A summary of the center's investments follow:

		Credit	Percent	Investment Maturities (in Years)		
	Fair	Quality	of	Less		
Type of Investment	Value	Rating*	Investments	Than 1	1-5	6-10
Investment in government securities: *						
Federal Home Loan Mortgage Corporation	\$9,505,415	Aaa	18.14	\$624,741	\$8,880,674	
Federal National Mortgage Association	6,842,577	Aaa	13.06	4,462,584	2,379,993	
Federal Home Loan Bank	30,408,750	Aaa	58.05	4,536,674	22,589,570	\$3,282,506
Federal Farm Credit Bank	1,247,049	Aaa	2.38	248,380	998,669	
Other: **						
Investments held by private foundation	4,351,605		8.31			
Common stock	33,391		0.06			
Total investments	\$52,388,787		100.00	\$9,872,379	\$34,848,906	\$3,282,506

* Credit quality ratings obtained from Moody's Investors Service.

** Credit quality ratings are not required for these investments, which do not have specified maturities.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits the center's investments by type as described previously. The center does not have policies to further limit credit risk.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the \$52,388,787 in total investments held by the center, \$48,003,791 is government securities and the center's investment policies generally require that issuers must provide the center with safekeeping receipts, collateral agreements, and custodial agreements.

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. State law as applicable to institutions of higher education does not address interest rate risk. The center does not have policies to limit concentration of credit risk or interest rate risk.

Investments held by the private foundation in an external investment pool are managed in accordance with the terms outlined in a management agreement executed between the LSU Board of Supervisors and the LSUHSC Foundation, with the center being a voluntary participant. These investments total \$4,351,605, and have no specified maturity date or credit quality rating.

4. RECEIVABLES

Receivables are shown on the Statement of Net Assets, net of an allowance for doubtful accounts, at June 30, 2007. These receivables are composed of the following:

<u>Type</u>	<u>Accounts Receivable</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Accounts Receivable</u>
Student tuition and fees	\$21,245		\$21,245
Federal, state, and private grants and contracts	6,602,982		6,602,982
Clinics	5,514,659	(\$2,239,104)	3,275,555
Sales and services of educational departments	98,393		98,393
Hospital income	26,977,957	(2,102,213)	24,875,744
Auxiliary enterprise revenues	5,755		5,755
Total	<u>\$39,220,991</u>	<u>(\$4,341,317)</u>	<u>\$34,879,674</u>

5. NOTES RECEIVABLE

Notes receivable are shown on the Statement of Net Assets at June 30, 2007. These receivables are composed of the following:

<u>Type</u>	<u>Notes Receivable</u>	<u>Noncurrent Portion</u>
Federal Perkins Loan	\$1,837,195	\$1,565,047
Health Profession Student Loan	29,024	5,885
Robert Woods Johnson Loan	38,660	31,183
Phyllis Pollitz Loan	600	
Faculty Student Loan	1,800	
Total	<u>\$1,907,279</u>	<u>\$1,602,115</u>

6. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the fiscal year ended June 30, 2007, follows:

NOTES TO THE FINANCIAL STATEMENTS

	Balance June 30, 2006	Prior Period Adjustment	Restated Balance June 30, 2006	Additions	Transfers	Retirements	Balance June 30, 2007
Capital assets not being depreciated:							
Land	\$3,308,852		\$3,308,852				\$3,308,852
Construction-in-progress	12,595,209		12,595,209	\$3,609,610			16,204,819
Total capital assets not being depreciated	<u>\$15,904,061</u>	<u>NONE</u>	<u>\$15,904,061</u>	<u>\$3,609,610</u>	<u>NONE</u>	<u>NONE</u>	<u>\$19,513,671</u>
Other capital assets:							
Land improvements	\$7,417,060		\$7,417,060	\$47,163			\$7,464,223
Less accumulated depreciation	(6,640,103)		(6,640,103)	(142,297)			(6,782,400)
Total land improvements	<u>776,957</u>	<u>NONE</u>	<u>776,957</u>	<u>(95,134)</u>	<u>NONE</u>	<u>NONE</u>	<u>681,823</u>
Buildings	221,384,397		221,384,397	1,069,254			222,453,651
Less accumulated depreciation	(143,169,364)		(143,169,364)	(7,371,210)			(150,540,574)
Total buildings	<u>78,215,033</u>	<u>NONE</u>	<u>78,215,033</u>	<u>(6,301,956)</u>	<u>NONE</u>	<u>NONE</u>	<u>71,913,077</u>
Equipment	133,911,142	(\$1)	133,911,141	16,393,499	\$57,529	(\$9,334,465)	141,027,704
Less accumulated depreciation	(101,573,645)	(1)	(101,573,646)	(15,430,284)		9,036,391	(107,967,539)
Total equipment	<u>32,337,497</u>	<u>(2)</u>	<u>32,337,495</u>	<u>963,215</u>	<u>57,529</u>	<u>(298,074)</u>	<u>33,060,165</u>
Library books	17,679,861		17,679,861	646,044			18,325,905
Less accumulated depreciation	(16,618,792)	(1)	(16,618,793)	(543,795)			(17,162,588)
Total library books	<u>1,061,069</u>	<u>(1)</u>	<u>1,061,068</u>	<u>102,249</u>	<u>NONE</u>	<u>NONE</u>	<u>1,163,317</u>
Total other capital assets	<u>\$112,390,556</u>	<u>(\$3)</u>	<u>\$112,390,553</u>	<u>(\$5,331,626)</u>	<u>\$57,529</u>	<u>(\$298,074)</u>	<u>\$106,818,382</u>
Capital Asset Summary:							
Capital assets not being depreciated	\$15,904,061		\$15,904,061	\$3,609,610			\$19,513,671
Other capital assets, at cost	380,392,460	(\$1)	380,392,459	18,155,960	\$57,529	(\$9,334,465)	389,271,483
Total cost of capital assets	396,296,521	(1)	396,296,520	21,765,570	57,529	(9,334,465)	408,785,154
Less accumulated depreciation	(268,001,904)	(2)	(268,001,906)	(23,487,586)	NONE	9,036,391	(282,453,101)
Capital assets, net	<u>\$128,294,617</u>	<u>(\$3)</u>	<u>\$128,294,614</u>	<u>(\$1,722,016)</u>	<u>\$57,529</u>	<u>(\$298,074)</u>	<u>\$126,332,053</u>

7. PAYABLES

The following is a summary of payables and accrued expenses at June 30, 2007:

Account Name

Accrued salaries and benefits	\$15,737,080
Vendor payables	<u>8,439,553</u>
Total payables	<u>\$24,176,633</u>

8. PENSION PLANS

Plan Description. Substantially all employees of the center are members of two statewide, public employee retirement systems. Academic and unclassified employees are generally members of the Teachers' Retirement System of Louisiana (TRSLA), and classified state employees are members of the Louisiana State Employees' Retirement System (LASERS). Both plans are administered by separate boards of trustees. TRSLA is a cost-sharing, multiple-employer defined benefit pension plan and LASERS is considered a single-employer plan

because the material portion of its activity is with one employer - the State of Louisiana. These plans provide retirement, disability, and survivors' benefits to plan members and beneficiaries. Benefits granted by the retirement systems are guaranteed by the State of Louisiana by provisions of the Louisiana Constitution of 1974. Generally, all full-time employees are eligible to participate in the systems, with employee benefits vesting after 5 years of service with TRSLA and 10 years of service with LASERS. Article 10, Section 29 of the Louisiana Constitution of 1974 assigns the authority to establish and amend benefit provisions to the state legislature. The systems issue annual publicly available financial reports that include financial statements and required supplementary information for the systems. The reports may be obtained by writing to the Teachers Retirement System of Louisiana, Post Office Box 94123, Baton Rouge, Louisiana 70804-9123, or by calling (225) 925-6446 and/or the Louisiana State Employees Retirement System, Post Office Box 44213, Baton Rouge, Louisiana 70804-4213, or by calling (225) 922-0600.

Funding Policy. The contribution requirements of employee plan members and the center are established and may be amended by the state legislature. The legislature annually sets the required employer contribution rate equal to the actuarially required employer contribution as set forth in R.S. 11:102. Employees contribute 8% (TRSLA) and 7.5% (8.0% for LASERS employees hired after July 1, 2006) of covered salaries. In fiscal year 2007, the state contributed 15.8% of covered salaries to TRSLA and 19.1% of covered salaries to LASERS. The employer contribution is funded by the State of Louisiana through the annual appropriation to the center. The employer contributions to TRSLA for the years ended June 30, 2007, 2006, and 2005 were \$3,780,146; \$3,367,024; and \$2,996,792, respectively, and to LASERS for years ended June 30, 2007, 2006, and 2005 were \$23,009,649; \$22,024,633; and \$19,696,481, respectively, equal to the required contributions for each year.

Optional Retirement System

R.S. 11:921 created an optional retirement plan for academic and administrative employees of public institutions of higher education. This program was designed to aid universities in recruiting employees who may not be expected to remain in the TRSLA for 10 or more years. The purpose of the optional retirement plan is to provide retirement and death benefits to the participants while affording the maximum portability of these benefits to the participants.

The optional retirement plan is a defined contribution plan that provides for full and immediate vesting of all contributions remitted to the participating companies on behalf of the participants. Eligible employees make an irrevocable election to participate in the optional retirement plan rather than the TRSLA and purchase retirement and death benefits through contracts provided by designated companies.

Total contributions by the center are 15.8% of covered payroll for fiscal year 2007. The participant's contribution (8.0%), less any monthly fee required to cover the cost of administration and maintenance of the optional retirement plan, is remitted to the designated company or companies. Upon receipt of the employer's contribution, the TRSLA pays over to the appropriate company or companies, on behalf of the participant, an amount equal to the employer's portion of the normal cost contribution as determined annually by an actuarial

committee. The TRSLA retains the balance of the employer contribution for application to the unfunded accrued liability of the system. Benefits payable to participants are not the obligations of the State of Louisiana or the TRSLA. Such benefits and other rights of the optional retirement plan are the liability and responsibility solely of the designated company or companies to whom contributions have been made. Employer and employee contributions to the optional retirement plan totaled \$7,462,588 and \$3,776,619, respectively, for the year ended June 30, 2007.

**9. POSTEMPLOYMENT HEALTH CARE
AND LIFE INSURANCE BENEFITS**

The center provides certain continuing health care and life insurance benefits for its retired employees. Substantially all of the center's employees become eligible for these benefits if they reach normal retirement age while working for the center. These benefits for retirees and similar benefits for active employees are provided through a state-operated group insurance program and various insurance companies whose monthly premiums are paid jointly by the employee and the center. The center recognizes the cost of providing these benefits to retirees (center's portion of premiums) as an expense when paid during the year. These retiree benefits, for 1,022 retirees, totaled \$4,992,076 for the year ended June 30, 2007.

**10. CONTINGENT LIABILITIES AND
RISK MANAGEMENT**

Losses arising from judgments, claims, and similar contingencies are considered state liabilities and paid upon appropriation by the legislature and not the center. Therefore, the center, through its respective legal advisors, estimates that potential claims not covered by insurance would not materially affect the financial statements. In addition, the center had not incurred any claims and/or litigation cost in the current year. Other losses of the center arising from judgments, claims, and similar contingencies are paid through the state's self-insurance fund operated by the Office of Risk Management, the agency responsible for the state's risk management program, or by appropriation from the state's General Fund. The Office of Risk Management insures all of these lawsuits.

11. COMPENSATED ABSENCES

At June 30, 2007, employees of the center have accumulated and vested annual, sick, and compensatory leave of \$19,633,325; \$4,663,454; and \$25, respectively. These balances were computed in accordance with GASB Codification Section C60. The leave payable is recorded in the accompanying financial statements.

12. OPERATING LEASES

For the year ended June 30, 2007, the total rental expenses for all operating leases, except those with terms of a month or less that were not renewed, is \$5,027,320. The following is a schedule by years of future minimum annual rental payments required under operating leases:

Nature of Operating Lease	2008	2009	2010	2011	2012	2013-2017
Office space	\$3,665,622	\$3,542,976	\$3,542,976	\$3,542,976	\$3,542,976	\$7,085,952
Equipment	899,536	237,922	15,364			
Other	202,068					
Total	<u>\$4,767,226</u>	<u>\$3,780,898</u>	<u>\$3,558,340</u>	<u>\$3,542,976</u>	<u>\$3,542,976</u>	<u>\$7,085,952</u>

13. LONG-TERM LIABILITIES

The following is a summary of long-term debt transactions of the center for the year ended June 30, 2007:

	Balance June 30, 2006	Additions	Reductions	Balance June 30, 2007	Amounts Due Within One Year
Notes payable	\$1,385,167		(\$583,257)	\$801,910	\$566,476
Capital lease obligations	12,878,100	\$195,296	(2,639,304)	10,434,092	2,456,629
Compensated absences payable	23,939,922	470,504	(113,622)	24,296,804	1,344,266
Amounts held in custody for others	39,356	1,750	(2,232)	38,874	38,874
Total long-term liabilities	<u>\$38,242,545</u>	<u>\$667,550</u>	<u>(\$3,338,415)</u>	<u>\$35,571,680</u>	<u>\$4,406,245</u>

Capital Leases

The center records items under capital leases as assets and obligations in the accompanying financial statements. Assets under capital lease are included as capital assets in note 6. The center's capital leases at June 30, 2007, consist of various equipment leases as follows:

Nature of Lease	Gross Amount of Leased Assets (Historical Cost)	Remaining Interest to End of Lease	Remaining Principal to End of Lease
Office space	\$1,206,912	\$43,083	\$351,993
Equipment	<u>20,287,813</u>	<u>2,805,969</u>	<u>10,082,099</u>
Total	<u>\$21,494,725</u>	<u>\$2,849,052</u>	<u>\$10,434,092</u>

The following is a schedule of future minimum lease payments under capital leases, together with the present value of minimum lease payments at June 30, 2007:

NOTES TO THE FINANCIAL STATEMENTS

Fiscal Year Ending June 30:

2008	\$2,947,510
2009	1,760,488
2010	1,221,072
2011	1,032,853
2012	799,773
2013-2017	3,766,709
2018-2022	<u>1,754,739</u>
Total minimum lease payments	13,283,144
Less - amount representing interest	<u>(2,849,052)</u>
 Present value of net minimum lease payments	 <u><u>\$10,434,092</u></u>

14. NOTES PAYABLE

Notes payable consisted of the following for the fiscal year ended June 30, 2007:

	Date of Issue	Original Issue	Principal Outstanding June 30, 2006	Redeemed	Principal Outstanding June 30, 2007	Maturities	Interest Rates	Interest Outstanding June 30, 2007
IBM Mainframe	November 1, 2005	\$1,491,338	\$1,176,099	(\$531,621)	\$644,478	2008	4.24%	\$18,368
Ambulances #1 & #2	November 10, 2004	177,094	135,990	(34,350)	101,640	2010	3.89%	5,698
Ambulance #3	June 21, 2005	89,747	73,078	(17,286)	55,792	2010	3.64%	3,186
Total		<u>\$1,758,179</u>	<u>\$1,385,167</u>	<u>(\$583,257)</u>	<u>\$801,910</u>			<u>\$27,252</u>

The scheduled amortization of the notes payable at June 30, 2007, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$566,476	\$22,492	\$588,968
2009	187,352	3,909	191,261
2010	<u>48,082</u>	<u>851</u>	<u>48,933</u>
Total	<u><u>\$801,910</u></u>	<u><u>\$27,252</u></u>	<u><u>\$829,162</u></u>

15. DUE TO/FROM STATE TREASURY

Amounts due to/from the State Treasury shown on the Statement of Net Assets at June 30, 2007, are composed of the following:

Due from:	
Balance of state appropriation	\$13,227,265
Tobacco tax funds	<u>1,076,084</u>
Total amount due	<u><u>\$14,303,349</u></u>
 Due to - unclaimed property	 <u><u>\$36,150</u></u>

16. RESTRICTED NET ASSETS

The center has the following restricted net assets at June 30, 2007:

Nonexpendable - endowments	<u>\$49,648,050</u>
Expendable:	
Student fees	\$145,117
Grants and contracts	14,920,866
Endowment earnings	3,973,327
Student loan funds	1,816,536
Capital construction	<u>599,423</u>
Total expendable	<u>\$21,455,269</u>

17. NET ASSETS RESTRICTED BY ENABLING LEGISLATION

Of the total net assets reported in the Statement of Net Assets for the year ended June 30, 2007, \$145,117 of Student Technology Fees is restricted by Louisiana Revised Statute 17:3351.1.

18. DONOR RESTRICTED ENDOWMENTS

If a donor has not provided specific instructions, state law permits the Board of Regents to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established. At June 30, 2007, net appreciation of \$1,821,170 is available to be spent and is restricted to specific purposes.

19. FOUNDATIONS

The accompanying financial statements do not include the accounts of the following foundations:

Louisiana State University Health Sciences Foundation in Shreveport
Biomedical Research Foundation of Northwest Louisiana

These foundations are not included in the center's financial statements as component units since they do not meet the criteria for inclusion established by the Division of Administration, Office of Statewide Reporting and Accounting Policy. The foundations are separate corporations whose financial statements are subject to audit by independent certified public accountants.

20. DEFERRED COMPENSATION PLAN

Certain employees of the center participate in the Louisiana Public Employees Deferred Compensation Plan adopted under the provisions of the Internal Revenue Code Section 457. Complete disclosures relating to the Plan are included in the separately issued audit report for the Plan, available from the Louisiana Legislative Auditor, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397.

21. ON-BEHALF PAYMENTS

On-behalf payments for fringe benefits and salaries are direct payments made by one entity to a third party recipient for the employees of another legally separate entity. On-behalf payments include pension plan contributions, employee health and life insurance premiums, and salary supplements or stipends. The amount of on-behalf payments for fringe benefits and salaries included in the Statement of Revenues, Expenses, and Changes in Net Assets for fiscal year ended June 30, 2007, was \$5,849.

22. SUBSEQUENT EVENTS

During the 2007 Regular Session of the Louisiana Legislature, Act 220 merged Huey P. Long Medical Center in Pineville with the center. The effective date of this merger was July 1, 2007.

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OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

The following pages contain a report on internal control and on compliance with laws and regulations and other matters as required by *Government Auditing Standards*, issued by the Comptroller General of the United States. This report is based solely on the audit of the financial statements and includes, where appropriate, any significant deficiencies and/or material weaknesses in internal control or compliance and other matters that would be material to the presented financial statements.

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STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

OFFICE OF
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October 24, 2007

Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards*

**LOUISIANA STATE UNIVERSITY HEALTH
SCIENCES CENTER IN SHREVEPORT
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Shreveport, Louisiana**

We have audited the basic financial statements of Louisiana State University Health Sciences Center in Shreveport, a campus within the Louisiana State University System, a component unit of the State of Louisiana, as of and for the year ended June 30, 2007, and have issued our report thereon dated October 24, 2007. Our report was modified to include an emphasis of a matter regarding the impact of hurricanes Katrina and Rita. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Louisiana State University Health Sciences Center in Shreveport's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Louisiana State University Health Sciences Center in Shreveport's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record,

process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting.

Unlocated Movable Property

For the third consecutive audit, Louisiana State University Health Sciences Center in Shreveport (center) has identified a significant amount of unlocated movable property as a result of its annual property inventory certification procedures. Current year inventory procedures identified unlocated property items totaling \$3,099,697. Of that amount, items totaling \$345,706 were removed from the property records because these items had not been located for three consecutive years. Of the unlocated property reported on the center's property inventory certification, the amount of unlocated computers and computer-related equipment totaled \$1,396,518; the amount of medical and related equipment totaled \$1,523,795; and the amount of office and related equipment totaled \$128,394.

Louisiana Revised Statute 93:325 requires entities to conduct an annual inventory of movable property and report any unlocated property to the Louisiana Property Assistance Agency (LPAA). Louisiana Administrative Code 34.VII.313 states, in part, that efforts must be made to locate all movable property for which there are no explanations available for their disappearance. The center's Administrative Directive 3.8, Section B identifies the functions and responsibilities of the department head or his/her designated representative to include (1) maintaining a complete and accurate inventory of the movable property assigned or acquired by the department; (2) providing the asset manager with accurate and up-to-date information on changes to the department's inventory; and (3) assisting in the conduct of the annual inventory of the department, as directed by the asset manager. In addition, good internal control dictates that assets should be properly monitored to safeguard against loss or theft and that thorough periodic physical counts of property inventory should be conducted. The center's certification of annual property inventory, submitted to LPAA on December 1, 2006, disclosed \$128,776,602 in total movable property.

Management of the center has not enforced and consistently applied its existing laws, regulations, and administrative directives for tracking the movement of property items or conducting the annual inventory.

Failure to enforce existing policies and procedures and put forth additional effort to locate unlocated items subjects the center's movable property to increased risk of loss and/or unauthorized use and subjects the center to noncompliance with movable property laws and regulations. In addition, because of the nature of the services provided by the center, the risk exists that sensitive information could be recovered from the missing computers and/or computer-related equipment and improperly used.

Once again we recommend that management of the center should enforce and consistently apply its existing policies and procedures for tracking the movement of property items and conducting the annual property inventory. In addition, management should strengthen its procedures to require more extensive searches for unlocated items. Finally, management needs to devote additional efforts to locating movable property reported as unlocated in previous years and comply with all applicable requirements of LPAA. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, page 1).

Inadequate Controls Over Financial Class Determination and Patient Billing

The center failed to require and retain adequate documentation for its outpatients to support “free care” financial class determinations during the screening process and for subsequent reclassifications from self pay to free care. In addition, the center does not have adequate controls in place to ensure that all medical charges for services rendered are charged to patient accounts.

Good internal controls require that adequate documentation be obtained and retained to support each patient’s financial class determination of either self pay or free care. In addition, reclassification of a self-pay patient to free care should only be allowed after proper documentation is received and reviewed by the appropriate center staff and approved by their supervisor. Our review of the controls over outpatient screening revealed that outpatients are asked a series of questions without having to provide any physical evidence to support the answers they give to the questions, except for patients receiving care from Family Medicine. We also learned that center personnel were reclassifying outpatients’ financial classifications from self pay to free care without retaining any physical evidence or review and approval from the appropriate supervisor.

Furthermore, good internal controls dictate that all services rendered should be charged to the patient’s account and billed timely to properly reflect total revenue generated for the services provided to each patient. In a test of 78 patient records, we found six charges for services totaling \$13,327 that were not processed timely, resulting in untimely billing. Four of the patients’ charges were billed from 147 to 298 days after discharge. The remaining two patients were discharged on September 10, 2006, and had not been billed as of September 13, 2007.

The center’s management feels it is not necessary to obtain and retain physical documentation to support the financial classification of its outpatients because of the volume of outpatients it serves each year. Management also feels that untimely billings occurred because of department personnel failing to pull and post charge slips to the patient records and obtaining the necessary physician’s signatures. Failure to obtain and retain the physical documentation to support the financial classification and subsequent reclassification of outpatients creates an environment that is conducive for fraud and abuse by patients and center employees. In addition, failure to accumulate and bill for all services rendered could result in lost revenues for the center.

The center's management should develop and implement policies and procedures to ensure that documentation is obtained and retained to support the financial classification of all patients regardless of whether the patient is self pay or free care. Management should also ensure that the procedures include documentation of the proper review and approval by appropriate center personnel and their supervisor for the reclassification of any self-pay patient to free care. In addition, policies and procedures should be developed and implemented establishing a timeline and detailing the process for gathering charge slips from patient records and posting the charges to the patient's account. The policies and procedures should also address when physicians must sign all required patient records so the patient charges can be entered and billed timely. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, pages 2-3).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

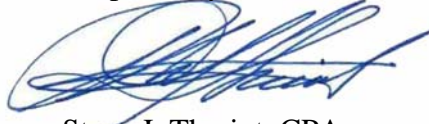
As part of obtaining reasonable assurance about whether the center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The center's responses to the findings identified in our audit are included in Appendix A. We did not audit the center's responses, and, accordingly, we express no opinion on them.

REPORT ON INTERNAL CONTROL

This report is intended solely for the information and use of the center's management, Louisiana State University System management, others within the entity, and the Louisiana State Legislature and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

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[LSUHSCS07]

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Management's Corrective Action
Plans and Responses to the
Findings and Recommendations



School of Medicine in Shreveport
School of Allied Health Professions
School of Graduate Studies

September 26, 2007

Mr. Steve Theriot, CPA
Legislative Auditor
State of Louisiana
Baton Rouge, Louisiana 70804-9397

Dear Mr. Theriot:

LSUHSC-S was issued an audit finding regarding Un-located Movable Property. In regard to this finding, LSUHSC-S concurs with the finding.

Although LSUHSC-S has put forth much effort to continue to fine tune the inventory process, there is always room for improvement. The following corrective actions will be put into effect:

1. Review the policy and make updates as needed to make improvements.
2. Offer training sessions to the individuals within the various departments.
3. Schedule meetings with the Departmental Business Managers (at least two per year).
4. Continue to discuss the inventory requirements with the Chairmen of the various departments and Hospital Administration.
5. Continue to obtain a listing of the missing assets by department and send a memo from the Vice Chancellor's office to follow up.
6. Continue to have the Chancellor emphasize the importance of timely compliance by all departments.

Management will continue to review and update the inventory process in order to increase the awareness and importance of compliance to the policy on campus.

Sincerely,

Harold White
Vice Chancellor
for Business and Reimbursements

xc: John C. McDonald, M.D.
John Antolik
Janie Binderim

LSU Health Sciences Center

SHREVEPORT

Administration and Finance

School of Medicine in Shreveport
School of Allied Health Professions
School of Graduate Studies

October 3, 2007

Mr. Steve Theriot, CPA
Legislative Auditor
State of Louisiana
Baton Rouge, Louisiana 70804-9397

Dear Mr. Theriot,

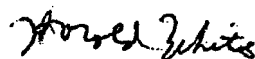
LSUHSC-S was issued a finding regarding Inadequate Controls over Financial Class Determination and Patient Billing. In regard to this finding, LSUHSC-S concurs with the finding.

Although LSUHSCS has exerted a considerable amount of time and resources to continue to fine tune its outpatient screening and charge entry processes, there is always room for improvement. The following corrective actions will be put into effect:

- 1) Provide retraining sessions to the physicians billing personnel within the various departments reemphasizing the need to ensure that claims are filed timely
- 2) Review the list of employees that have the ability to make changes to financial classes to ensure that the only people that have a job related need have access to do so.
- 3) Complete the installation of scanners in each of the clinics to facilitate maintaining pertinent information into the system.
- 4) Review and revise the physicians departmental charge collection, charge entry and billing policies and procedures as needed.

Management will continue to review and update the processes in order to keep the awareness and importance of them before our employees.

Regards,



Harold White
Vice Chancellor
for Business and Reimbursements

Mr. Steve Theriot
October 3, 2007
Page 2

xc: John C. McDonald, M.D.
John Antolik
Janie Binderim